



2011 CALIFORNIA VOLUNTEER REFERENCE MANUAL – General Information

Tax and Credits

Tax

Determine your client's tax by using the tax table in the 540/540A Booklet or in this manual. If you are filing a paper Form 540 2EZ, the tax tables are specially calculated to include the standard deduction and exemption credit. Do not use the Form 540 2EZ tax tables for either Form 540 or 540A.

Follow the instructions at the top of the table. Use the correct filing status and taxable income from your client's Form 540, line 20.

First Column

- 1 – Single
- 3 – Married/RDP filing separately

Second Column

- 2 – Married/RDP filing jointly
- 5 – Qualifying widow-(er)

Third Column

- 4 – Head of Household

Use Tax

California enacted use tax on July 1, 1935. It applies to purchases from out of state sellers, similar to sales tax paid on purchases made in California.

In general, your client pays California use tax on purchases from out of state (i.e., telephone, over the Internet, by mail, or in person) if both apply:

- The seller did not collect California sales or use tax.
- Your client used, gave away, stored, or consumed the item in this state.

If your client owes use tax, but chooses not to report it on their income tax return, they must report and pay the tax to the State Board of Equalization. For more information, contact the State Board of Equalization at **boe.ca.gov** or call 800.400.7115.

Complete the worksheet below to figure your clients' use tax.

Use Tax Worksheet	
1. Enter your clients' total purchases subject to use tax. Include handling charges. Do not include any sales or use tax your client paid to the seller.	1.
2. Enter the applicable sales and use tax rate from chart below.	2.
3. Multiple line 1 by the tax rate on line 2.	3.
4. Enter any sales or use tax your client paid to another state for purchases included on line 1.*	4.
5. Subtract line 4 from line 3. Enter line 5 on Form 540, line 95.	5.

*This is a credit paid to other states. Your client cannot claim a credit greater than



2011 CALIFORNIA VOLUNTEER REFERENCE MANUAL – General Information

the amount of tax that would have been due if the purchase had been made in California. For example, if your client paid \$8.00 in sales tax to another state for a purchase, and they would have paid \$6.00 in California, they can claim a credit of only \$6.00 for that purchase.

County	Rate	County	Rate
Alameda*	9.75%	Orange	8.75%
Alpine	8.25%	Placer	8.25%
Amador	8.75%	Plumas	8.25%
Butte	8.25%	Riverside	8.75%
Calaveras	8.25%	Sacramento	8.75%
Colusa	8.25%	San Benito	8.25%
Contra Costa	9.25%	San Bernardino	8.75%
Del Norte	8.25%	San Diego	8.75%
El Dorado*	8.25%	San Francisco	9.50%
Fresno*	8.975%	San Joaquin	8.75%
Glenn	8.25%	San Luis Obispo	8.25%
Humboldt*	8.25%	San Mateo	9.25%
Imperial*	8.75%	Santa Barbara	8.75%
Inyo	8.75%	Santa Clara	9.25%
Kern	8.25%	Santa Cruz*	9.00%
Kings	8.25%	Shasta	8.25%
Lake*	8.25%	Sierra	8.25%
Lassen	8.25%	Siskiyou	8.25%
Los Angeles*	9.75%	Solano	8.375%
Madera	8.75%	Sonoma*	9.00%
Marin	9.00%	Stanislaus	8.375%
Mariposa	8.75%	Sutter	8.25%
Mendocino*	8.25%	Tehama	8.25%
Merced	8.25%	Trinity	8.25%
Modoc	8.25%	Tulare	8.75%
Mono	8.25%	Tuolumne	8.25%
Monterey	8.25%	Ventura	8.25%
Napa	8.75%	Yolo*	8.25%
Nevada*	8.375%	Yuba	8.25%

*Many cities and towns in California impose a district tax, which results in a higher sales and use tax than in other parts of the county. If your clients are reporting an item that was purchased for use in any of the following cities or towns, please use the appropriate tax rates for those areas. The following tax rates apply within the city limits or the town limits of the listed community.



2011 CALIFORNIA VOLUNTEER REFERENCE MANUAL – General Information

County	City or Town With a Special District Tax	Effective Tax Rate
Contra Costa	Richmond	9.75%
El Dorado	Placerville and South Lake Tahoe	8.50% and 8.75%
Fresno	Clovis	8.975%
Humboldt	Trinidad	9.00%
Imperial	Calexico	9.25%
Lake	Clearlake and Lakeport	8.25% and 8.75%
Los Angeles	Avalon	10.25%
Marin	San Rafael	9.50%
Mendocino	Point Arena and Fort Bragg	8.75% and 8.75%
Mendocino	Willits and Ukiah	8.75% and 8.75%
Merced	Los Banos and Merced	8.75% and 8.75%
Monterey	Salinas and Sand City	8.75% and 8.75%
Nevada	Truckee	8.875%
Orange	Laguna Beach	8.75%
San Benito	San Juan Bautista	9.00%
San Bernardino	Montclair	9.00%
San Diego	El Cajon and National City	9.75% and 9.75%
San Joaquin	Stockton	9.00%
Santa Cruz	Capitola, Santa Cruz, and Scotts Valley	9.25%, 9.50%, and 9.25%
Sonoma	Sebastopol and Santa Rosa	9.25% and 9.25%
Tulare	Dinuba, Farmersville, Porterville, Tulare, and Visalia	9.50%, 9.25%, 9.25%, 9.25%, and 9.00%
Tuolumne	Sonora	8.75%
Yolo	Davis, West Sacramento, and Woodland	8.75%, 8.75%, and 9.00%

California Income Tax Withheld

Enter total California income tax withheld from box 17 on Forms W-2. If filing a joint tax return, include the amount withheld from the spouse's/RDP's wages. If filing separate tax returns, claim half of the **total** withholding from **both** spouses/RDPs on each tax return.

Also include amounts from Form W-2G, box 14, and 1099-R, box 10. If your clients received Form 1099 showing California income tax withholding on dividends and interest income, include these amounts.

Do not include any amount of local income tax withheld.



2011 CALIFORNIA VOLUNTEER REFERENCE MANUAL – General Information

Advise clients who do not receive Form W-2 by January 31, 2012, to contact their employers. Only an employer distributes or corrects Form W-2.

Clients who cannot get a copy of Form W-2 must complete FTB 3525, *Substitute for Form W-2, Wage and Tax Statement*, or 1099-R, *Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts*, etc.

If your client forgets to send their Form W-2 with a paper tax return, advise them not to send them separately. It is best to wait until Franchise Tax Board contacts your client to request them.

2011 California Estimated Tax and Payment with FTB 3519

Enter total of any:

- 2011 California estimated tax payments your clients made using Form 540-ES.
- Overpayment from your clients' 2010 California income tax return that they applied to their 2011 estimated tax.
- Any payment with form FTB 3519, *Payment Voucher for Automatic Extension for Individuals*, which your client may have made if they are filing after April 17, 2012.
- Amounts claimed by your client who, with their spouse/RDP, paid 2011 joint estimated tax but are not filing a separate tax return.

When filing a separate tax return after estimate payments have been jointly sent to Franchise Tax Board, either the client or the spouse/RDP claims the entire amount paid or they each claim a part of it. Provide a signed statement from the client and their spouse/RDP explaining how they want their payments divided. Always show both social security numbers on the separate tax returns.

Nonrefundable Renter's Credit

Is your client's income on Form 540, line 17:

- \$35,659 or less if single or married/RDP filing separately?
- \$71,318 or less if married filing jointly, head of household, or qualifying widow(er)?

AND

Your client paid rent on their principal residence in California for at least 6 months in 2011?



2011 CALIFORNIA VOLUNTEER REFERENCE MANUAL – General Information

Yes: Complete the “Nonrefundable Renter’s Credit Worksheet” to see if they qualify.

No: They do not qualify for this credit.

Your client does not qualify for the Nonrefundable Renter’s Credit if, for more than half of the year, they rented property exempt from property taxes. Exempt property includes most government owned buildings, church owned buildings and parsonages, college dormitories, and military barracks. However, if your client’s landlord paid possessory interest taxes for the rented property, then your client may claim the Nonrefundable Renter’s Credit.

Your client does not qualify for the Nonrefundable Renter’s Credit if they or their spouse/RDP received a property tax exemption at any time during the year. However, if your client lived apart from their spouse/RDP for the entire year, and your client’s spouse/RDP received a homeowner’s property tax exemption for a separate residence, then claim the Nonrefundable Renter’s Credit if the client meets all other qualifications.

If your client and their spouse/RDP file separate returns, live in the same rental property, and both qualify for the Nonrefundable Renter’s Credit, each claims half of the amount, \$60, or one of them claims the whole amount, \$120. If your client and their spouse/RDP maintained separate residences, they each claim only half the amount, \$60.

Important Note: TaxWise does not automatically enter the Nonrefundable Renter’s Credit. If your clients qualify, you must remember to enter the credit on the state tax return. A checkbox on Form 540, Page 1, loads the Nonrefundable Renter’s Credit Worksheet. The worksheet calculates the credit and enters it into the software.



2011 CALIFORNIA VOLUNTEER REFERENCE MANUAL – General Information

Do Not Mail This Worksheet to FTB

Nonrefundable Renter's Credit Worksheet

1. Was your client a resident of California for the entire year in 2011?
YES Go to the next question.
NO Stop here. File Form 540NR, California Non-Resident or Part-Year Resident Income Tax Return.
2. Is your clients' California adjusted gross income \$35,659 or less if single or married/RDP filing separately; or \$71,318 or less if married/RDP filing jointly, head of household, or qualifying widow(er)?
YES Go to the next question.
NO Stop here. Your client does not qualify for this credit.
3. Did your client pay rent, for at least half of 2011, for property (including a mobile home that your client may have owned on rented land) in California, which was your clients' principal residence?
YES Go to the next question.
NO Stop here. Your client does not qualify for this credit.
4. Could your client be claimed as a dependent by a parent, foster parent, legal guardian or any other person in 2011?
NO Go to question 6.
YES Go to question 5.
5. For more than half the year, did your client live in the home of the person who can claim them as a dependent for 2011?
NO Go to question 6.
YES Stop here. Your client does not qualify for this credit.
6. Was the property your client rented exempt from property tax in 2011?
NO Go to question 8.
YES Stop here. Your client does not qualify for this credit.
7. Did your client claim the homeowner's property tax exemption anytime during 2011?
NO Go to the next question.
YES Stop here. Your client does not qualify for this credit.
8. Was your client single in 2011?
YES Go to question 11.
NO Go to question 9.
9. Did your clients' spouse/RDP claim the homeowner's property tax exemption anytime during 2011?
NO Go to question 11.
YES Go to question 10.
10. Did your client and your clients' spouse/RDP maintain separate residences for the entire year in 2011?
YES Go to question 11.
NO Stop here. Your client does not qualify for this credit.
11. If your client is:
Single or married filing separately, enter \$60 on Form 540.
Married filing jointly, head of household, or qualifying widow(er), enter \$120 on Form 540.
12. Fill in the address(es) of the residence(s) your clients rented in California during 2011, which qualified them for this credit. Do not list post office boxes.

Street Address:	City, State and ZIP Code:	Dates Rented in 2011 (from _____ to _____)

13. List the names, address(es), and telephone number(s) of your clients' landlord or the person to whom your client paid rent for the residence(s) listed above.

Name	Address	Phone Number



2011 CALIFORNIA VOLUNTEER REFERENCE MANUAL – General Information

Excess SDI or VPDI Withheld

Your clients may claim a credit for excess California State Disability Insurance (SDI) or Voluntary Plan Disability Insurance (VPDI) if they meet all of the conditions below:

- A client had **two or more** employers during 2011.
- The client received more than \$93,316 in combined wages during 2011 from more than one employer.
- The amount of SDI or VPDI withholding appears on the Forms W-2.

A client with one employer and SDI withholding that exceeds the maximum withholding amount of \$1,119.79, or withholding that exceeds 1.2 percent of your client's gross wages, cannot take the credit. Your client's employer refunds the difference.

Use the "Excess SDI or VPDI Worksheet" below to figure your client's credit.

Excess California SDI or VPDI Withheld

1. Add amounts of SDI (or VPDI) withheld on your clients' Form W-2.

Enter the total here.

1. _____

2. 2011 SDI (or VPDI) limit.

2. \$1,119.79

3. Subtract Line 2 from Line 1. This is your clients' excess SDI (or VPDI) withheld.

Enter the result here, and on Form 540.

3. _____

For married/RDP clients filing a joint tax return, compute the credit separately for each spouse/RDP, add the two credits together and enter the combined credit on Form 540.

Important Note: Employers often enter SDI in Box 14 on Form W-2. Taxwise software will not calculate the federal SDI Schedule A deduction if SDI is entered in Box 14 of Form W-2.



2011 CALIFORNIA VOLUNTEER REFERENCE MANUAL – General Information

Child and Dependent Care Expense Credit Form 3506

Important Note: For 2011 the Child and Dependent Care Expense credit is **nonrefundable**. Prior to the 2011 tax year, the Child and Dependent Care Expense Credit was a refundable credit on Form 540. Nonrefundable means that your client uses the credit only to reduce the amount of state tax owed on the 2011 California tax return.

If your client paid someone to care for their child or other qualifying person in order to work or look for work in 2011, they may be eligible for the child and dependent care expense credit. They must earn income in 2011 to claim the credit. If they qualify for the credit, use FTB Form 3506, *Child and Dependent Care Expenses Credit*, to figure the credit amount.

Your client does not have to take the federal Child and Dependent Care Expense Credit to claim the California credit.

Differences in California and Federal law

- California allows this credit only for care provided in California.
- Federal adjusted gross income of \$100,000 or less to qualify for the California credit.
- Never married parents, who have lived apart at all times during the last six months of the year, may be treated differently for the California credit.
- The California credit is a percentage of the federal credit as modified by California law.
- An RDP may file a joint tax return and claim this credit.

Qualifications

Check with your client to see if **all eight** of the following rules apply:

1. Married/RDP clients must file a joint tax return. For exceptions, see the "Married clients filing separate returns" section on the next page.
2. All care provided in California for one or more qualifying persons. A qualifying person is:
 - Any child age 12 or under for whom your client claims the dependent exemption credit. Children turning 13 during the year qualify for the part of the year they were 12.



2011 CALIFORNIA VOLUNTEER REFERENCE MANUAL – General Information

- Your client's spouse/RDP was physically or mentally incapable of self-care.
 - Your client's dependent was physically or mentally incapable of self-care. Your client must claim the dependent exemption credit for this person.
 - Any disabled person unable to care for themselves whom you could claim as a dependent; however, you (or your spouse/RDP filing a joint tax return) could be claimed as a dependent on someone else's 2011 tax return.
3. The care was provided so your client or their spouse/RDP could work or look for work during 2011. However, if they did not find a job and have no earned income for the year, they cannot take the credit. If your client's spouse/RDP was a student or disabled, see the instructions for Form 3506, line 5.
 4. You and your spouse/RDP must have earned income during the year.
 5. Your client and the qualifying person(s) must have lived in the same home for more than half the year.
 6. The person providing the care is not the spouse/RDP, the parent of the qualifying child, or a person for whom your client can claim a dependent exemption. If a client's child provides the care, the child must have been 19 or older by the end of 2011.
 7. Reported provider and qualifying child information.
 8. Your client's federal adjusted gross income must be \$100,000 or less.

Important Note: Nonresident rules are not covered in this manual. If your client was a part year or nonresident of California, see the Form FTB 3506, *Child and Dependent Care Expense Credit* instructions.

Married/RDP Clients Filing Separate Returns

If your client is married and files a separate return, and they meet the three requirements below, plus **all** the other qualifications listed previously, they may take the credit:

- They lived apart from their spouse/RDP during the last 6 months of 2011.
- The qualifying person lived in their home more than half of 2011.
- They provided over half the cost of keeping up the home.



2011 CALIFORNIA VOLUNTEER REFERENCE MANUAL – General Information

Divorced, Separated, or Never Married Parents

If your client is divorced, separated, or never married, special rules apply for determining if their child is their qualifying person. A child can only be the qualifying person of one parent when the parents are filing separate returns. Even if both parents pay for childcare for the same child, both parents cannot qualify for the credit. Some custody agreements designate which parent is entitled to the credit; however, the designated parent must still meet **all** of the previous qualifications.

Custodial Parent

Your client is considered the custodial parent if they had physical custody of their child longer than the other parent during the calendar year. On days where custody is shared, the parent having custody of the child for more than 12 hours is considered to have custody for that day. If your client and other parent have physical custody for the same number of days, then neither your client nor the other parent is the custodial parent.

For more information on divorced, separated, never married or custodial parents, see the instructions for Form FTB 3506.

Part I

Unearned Income and Other Funds Received in 2011

List the source and amount of any money your client received in 2011, not included in earned income (listed on lines 4 and 5, Form FTB 3506), but used to support their household. Include:

- Child support
- Property settlements
- Public assistance benefits
- Court awards
- Inheritances
- Insurance proceeds
- Pensions and annuities
- Social Security payments
- Workers compensation
- Unemployment compensation
- Interest
- Dividends

Part II

Persons or Organizations Who Provided the Care

Complete columns (a) through columns (g) for each person or organization that provides dependent care. Use federal Form W-10, Dependent Care Provider's Identification and Certification, or any other source listed in the instructions for Form W-10 to get the necessary information from the care provider. If the provider does not give your client the information, complete as much of the information as



2011 CALIFORNIA VOLUNTEER REFERENCE MANUAL – General Information

possible and explain that the provider did not give the information requested. If the correct or complete information is not given, your client's credit may be disallowed unless they can show they used due diligence trying to get the required information.

Line 1, column (a) and (b)

Enter the care provider's name and address. Also check if the provider is a person or an organization.

If your client was covered by their employer's dependent care plan and the employer furnished the care (either at their workplace or by hiring a care provider), enter the employer's name in column (a). Next, enter "See W-2" in column (b). Then enter the employer's telephone number in column (c). Complete all columns 1(a) through 1(f). Leave column (g) blank. But, if the employer paid a third party (not hired by the employer) on your clients' behalf to provide care, you must provide information on their third party on line 1, column (a) through column (g).

Line 1, column (c)

Enter the telephone number of the care provider, including area code. FTB may call to verify the provider information.

TaxWise Tip: The care provider's phone number is a "required" field on the Form FTB 3506. Failure to provide the phone number causes e-file reject for the state tax return.

Line 1, column (d)

Check the box indicating whether the care provider is a person or organization.

Line 1, column (e)

If the care provider is an individual, enter his/her social security number. Otherwise, enter the provider's employer identification number. If the provider is a tax-exempt organization, enter "Tax-Exempt" in column (c).

Line 1, column (f)

Enter the address where the care was provided. **Only care provided in California qualifies for the credit.**

Line 1, column (g)

Enter the total amount your client actually paid in 2011 to the care provider. Also include amounts the employer paid to a third party on their behalf. It doesn't matter when the expenses were incurred. Do not reduce this amount by any reimbursement they received.

Inform the client that FTB may ask for proof of payments made at a later date. Cash payments without verifiable documentation may not be accepted.



2011 CALIFORNIA VOLUNTEER REFERENCE MANUAL – General Information

Part III

Credit for Child and Dependent Care Expenses

Line 2

Information about your qualifying person(s)

Complete column (a) through column (e) for each qualifying person. If your client has more than three qualifying persons, attach a statement to the return with the required information and write, "see attached." Be sure to put your clients' name and social security number on the statement.

Line 2, column (a)

Enter each qualifying person(s) name.

Line 2, column (b)

Enter the qualifying person's SSN unless he or she was born and died in 2011. Be sure the name and SSN entered agree with the person's social security card.

If the person was born and died in 2011, and did not have an SSN, enter "Deceased" in column (b) and attach a copy of the person's birth and death certificates.

Line 2, column (c)

Enter the qualifying person's date of birth. If the qualifying person is disabled, check the "Yes" box.

Line 2, column (d)

If your client shared custody of the qualifying person(s), enter the percentage of time they had physical custody. Physical custody must be greater than 50 percent to qualify for the credit.

Line 2, column (e)

Enter the qualified expenses your client incurred and paid in 2011 for the person listed in column (a). Do not include in column (e) qualified expenses your client:

- Incurred in 2011, but did not pay until 2012.
- Incurred in 2010, but did not pay until 2011. Instead, see line 11, Credit for Prior Year's Expenses.
- Prepaid in 2011 for care to be provided in 2012. These expenses may only be used to figure the 2012 credit.

Line 3 Add

Add the amounts in column (e) and enter on line 3. Do not enter more than \$3,000

2011 CALIFORNIA VOLUNTEER REFERENCE MANUAL – General Information

for one qualifying person or \$6,000 for two or more qualifying persons.

Line 4 Earned Income

Earned income includes wages, salaries, tips, other employee compensation, net earnings from self-employment, strike benefits, and disability payments your client reported as wages. Earned income does not include pensions and annuities, social security payments, worker's compensation, interest, dividends, public assistance, capital gains, or unemployment compensation.

Line 5 Spouse/RDP Who is a Student or Disabled

Your client's spouse/RDP can be considered a student if he/she was enrolled as a full-time student at a school during any five months of 2011. A school does not include a night school or correspondence school.

Your client's spouse/RDP is considered disabled if he or she was not capable of self-care.

Figure your client's spouse/RDP income on a monthly basis. For each month or part of a month your client's spouse/RDP was a student or was disabled, he/she is considered to have worked and earned income. His/her income for each month is considered to be at least \$250 (\$500 if two or more qualifying persons). If your client's spouse/RDP also worked during that month, use the higher of \$250/\$500 or their actual earned income for that month.

If, in the same month, both your client and their spouse/RDP were either students or disabled, only one of them can be treated as having earned income in that month. For any month that their spouse/RDP was not a student or disabled, use your clients' spouse/RDP actual earned income if he/she worked during that month.

Line 7 Federal Adjusted Gross Income

Determine your client's federal adjusted gross income from Form 540, line 13. Then use the chart below to determine the decimal to use on line 7.

Federal AGI is Over	But Not Over	Decimal for Line 7
\$0	15,000	.35
15,000	17,000	.34
17,000	19,000	.33
19,000	21,000	.32
21,000	23,000	.31
23,000	25,000	.30
25,000	27,000	.29
27,000	29,000	.28
29,000	31,000	.27
31,000	33,000	.26
33,000	35,000	.25
35,000	37,000	.24
37,000	39,000	.23
41,000	43,000	.21
43,000	No Limit	.20



2011 CALIFORNIA VOLUNTEER REFERENCE MANUAL – General Information

Line 9 California Credit Percentage

Use the chart below to determine the California percentage.

<u>If the amount from Form 540, line 13 is:</u>	<u>Enter on Line 9, FTB 3506:</u>
\$40,000 or less	.50
\$40,000 but not over \$70,000	.43
\$70,000 but not over \$100,000	.34
Over \$100,000 does not qualify	

Line 11 Prior Year Expenses

If your client had qualified expenses for care that was provided in 2010 that they did not pay until 2011, they may be able to increase the amount of credit they can take in 2011. You will need a copy of the 2010 tax return to complete this line.

Line 12 Add

Add line 10 and line 11. Enter this result on Form 540, line 78.

Part IV

Dependent Care Benefits

Line 13 – Line 27

Part IV is to be completed only if your client received dependent care benefits from an employer. See FTB 3506 instructions for detailed information.

Credit for 2010 Expenses Paid in 2011

You will need the instructions for the 2010 FTB 3506 if your client feels he/she qualifies for 2010 expenses paid in 2011.

Contributions on the California Tax Return

Some clients make charitable contributions to charitable funds listed on the back of Form 540. For a list of the funds and a description of each, see the Contribution section in this manual. The contribution reduces any refund due. The contribution also increases the balance due, if there is tax owed on the tax return.

Contributions must be \$1 or more, in whole dollar amounts. Your client cannot change the contribution amount after FTB accepts an e-file or paper tax return.

Refund or No Amount Due

If your client made Form 540 contributions, the amount of the refund is the amount of overpaid tax available this year minus the amount of the contributions.

If your client made no Form 540 charitable contributions, then the amount of their refund is the same as the amount of the overpaid tax available this year.

Refunds automatically issue for \$1 or more. For refunds less than \$1, attach a written request to Form 540.